EADS Analytical Brief on

Trade in West Africa

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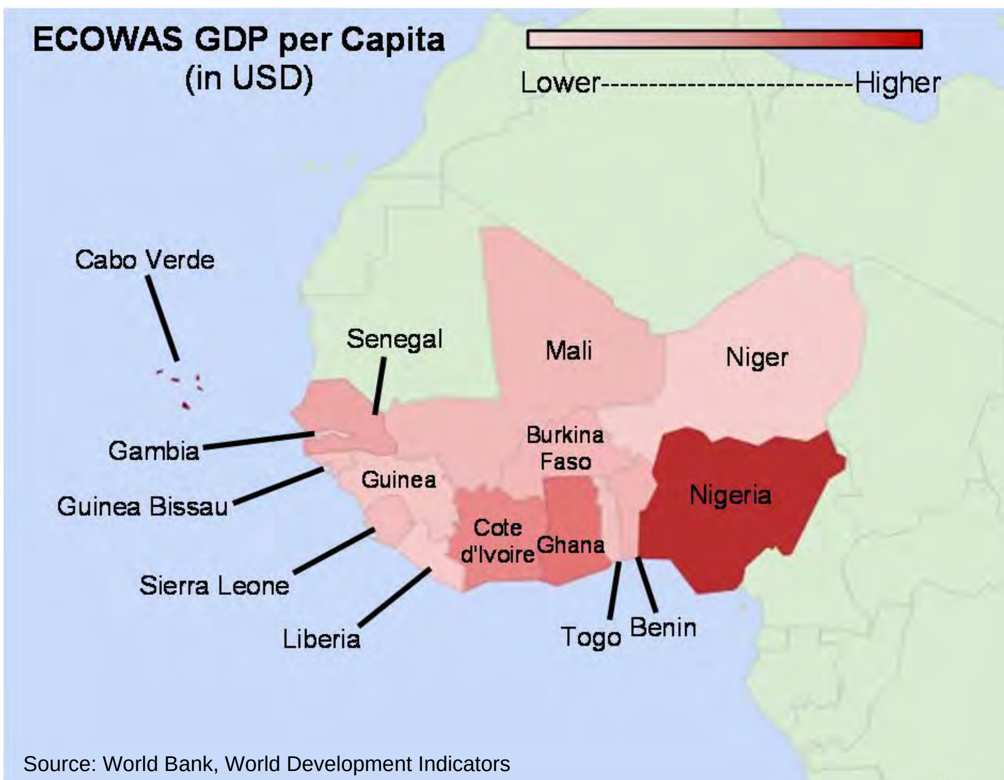
With the establishment of the Economic Community of West African States (ECOWAS) in 1975, governments in West Africa recognized regional integration and cooperation as an important tool for the region's economic development. In the 40 years since its creation, ECOWAS has identified trade facilitation, both with regional and global partners, as an essential priority, particularly as West Africa experiences increasing trade volumes and economic growth. Today, ECOWAS consists of 15 member countries that continue to work closely towards economic integration, including a plan for macroeconomic policy convergence through the introduction of a common West African currency. This analytical brief examines trends in ECOWAS trade since 2000, including an analysis of ECOWAS progress on several trade-related indicators and of U.S. efforts to promote trade capacity building in the region.

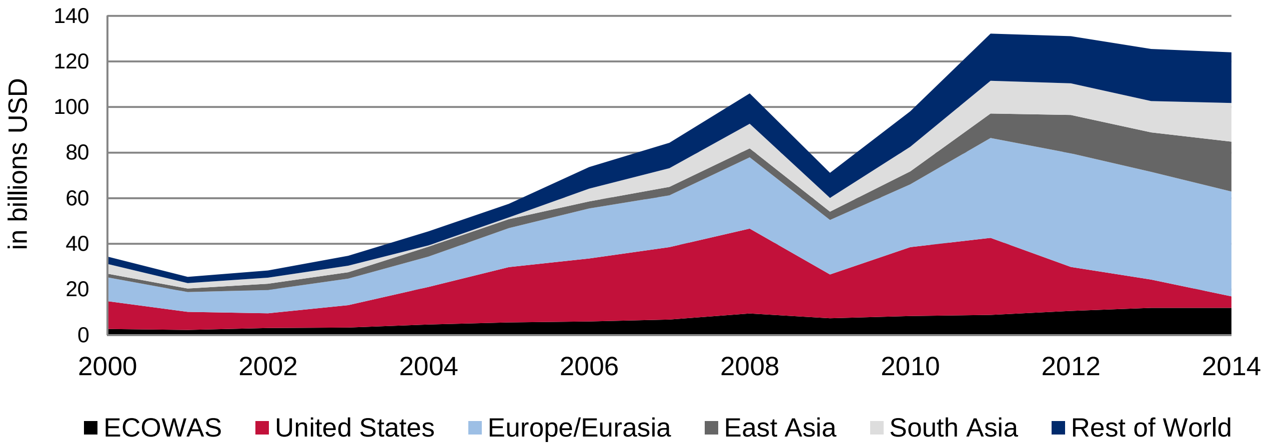
ECOWAS Economic Overview



Despite their geographic and cultural connections, the countries that comprise ECOWAS are a fairly economically heterogeneous group. Nigeria is the region's economic hub, with a GDP of $522.8 billion in 2013, more than ten times the GDP of the region's second largest economy, Ghana. Nigeria also has the second-highest GDP per capita in the region, at just over $3,000, but the archipelago of Cabo Verde off the Atlantic Coast has the region's highest, at $3,767. The Gambia has the region's lowest GDP in absolute terms, but also has the third smallest ECOWAS population. Niger, a landlocked country, has the lowest GDP per capita figure, at $415. Reflective of West Africa's relatively low level of economic development, official development assistance levels are high in the region, and all ECOWAS countries with the exception of Cabo Verde, The Gambia, Guinea-Bissau, and Togo received at least $2 million in USAID funding in 2014.

ECOWAS Trade Trends: 2000-2014

ECOWAS Exports, 2000-2014 (by destination)



Source: IMF, Direction of Trade Statistics

The value of exports from ECOWAS countries has grown by 260 percent since 2000, from $34.5 billion in 2000 to nearly $124 billion in 2014. Of this total, the share of ECOWAS exports going to other ECOWAS partners has stayed relatively steady at around 7 to 11 percent of total exports. However, there have been significant shifts in both the volume and direction of inter-regional trade. Exports to and imports from Asia, particularly China (East Asia) and India (South Asia), have risen significantly while the share of ECOWAS trade to North America, specifically to the United States, has fallen. Exports to East Asia, for example, comprised less than 5 percent of total ECOWAS exports in 2000, but in 2014 accounted for more than 17 percent of exports from ECOWAS countries. On the other hand, roughly 35 percent of ECOWAS exports went to the United States in 2000, but a shift in several economic factors, including lower U.S. demand for foreign petroleum, drove that figure down to 4 percent in 2014. McKinsey and Company estimates that U.S. and Canadian demand for crude oil from West African producers declined by 1.2 million barrels per day between 2011 and 2014, due in large part to U.S. production of shale oil, which increased by 2.2 million barrels per day in the same period. The decline in North American demand was offset in part by an increase in crude oil exports from West Africa to Asia, which increased by 0.5 million barrels per day from 2011 to 2014.

Inter-Regional Trade

The largest single recipient of ECOWAS exports in 2014 was India, with exports valued at $16.73 billion in 2014. According to UN Comtrade data, crude oil, mostly from Nigeria, comprised approximately 85 percent of ECOWAS exports to India in 2014. India's ascent marks a significant change from 2000, when the United States was the largest recipient of ECOWAS exports; in 2014, the United States did not appear in the top five export trading partners.

Top ECOWAS Trading Partners, 2014

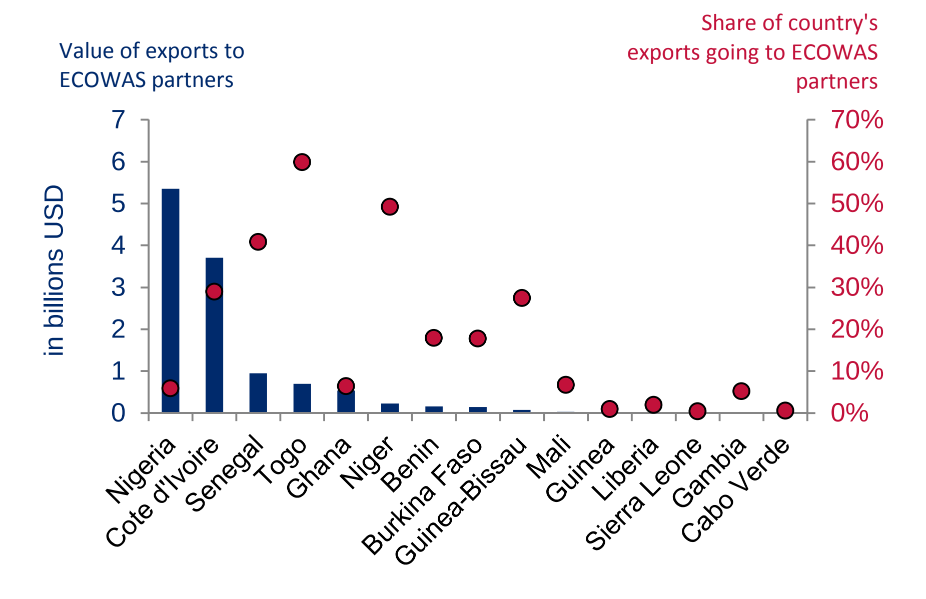
ECOWAS Exports		ECOWAS Imports	
Country	*Value (in billions USD)*	*Country*	*Value (in billions USD)*
India	16.73	China (P.R.C.)	33.36
Netherlands	9.72	United States	10.01
Brazil	9.68	France	7.34
Spain	8.57	India	6.70
France	7.05	Nigeria	5.89

Source: IMF, Direction of Trade Statistics

ECOWAS countries collectively imported more than $33 billion in goods and services from China in 2014, more than three times the value imported from the United States, the second highest country. France, perhaps due to its colonial ties and geographic proximity to West Africa, appears in the top five partners for both ECOWAS imports and ECOWAS exports. The only ECOWAS country that appears in the top five for either importers or exporters is Nigeria, which imported $5.89 billion worth of goods and services from ECOWAS partners in 2014, reflecting the relatively low levels of intra-regional trade amongst ECOWAS countries.

Intra-ECOWAS Trade

Intra-ECOWAS Exports, 2014 (by country)



Source: IMF, Direction of Trade Statistics

Trade within ECOWAS remains relatively small, despite efforts to reduce barriers to trade amongst West African neighbors. In 2014, less than 10 percent of exports from ECOWAS economies went to ECOWAS partners. However, there is wide variation in the share of individual country exports that went to ECOWAS partners. Nigeria, for example, exported the highest volume of goods and services to ECOWAS economies, at more than $5 billion. Yet, Nigerian ECOWAS exports comprised less than 6 percent of the country's total exports. In the same year, exports from Senegal, Togo, and Niger made up only 3 percent of total ECOWAS exports, but each country relied on ECOWAS partners for at least 40 percent of their exports. Therefore, while intra-ECOWAS trade does not immediately appear to be integral to the region's economic health as a whole, there are some countries that rely on ECOWAS partners for a large portion of their trade.

It is important to note that informal cross border trade (ICBT) is pervasive in West Africa, leading to understated official trade statistics, particularly for intra-regional trade. According to the African Development Bank, ICBT in the region ranges from 20 percent of GDP in Nigeria to 75 percent of GDP in Benin. Governance issues exacerbate the issue of informal trade, where corrupt law enforcement and trade gangs pose an impediment to formal trade. Therefore, while official counts of intra-regional trade appear to be minimal, a significant amount of trade between ECOWAS countries remains unaccounted for in the data.

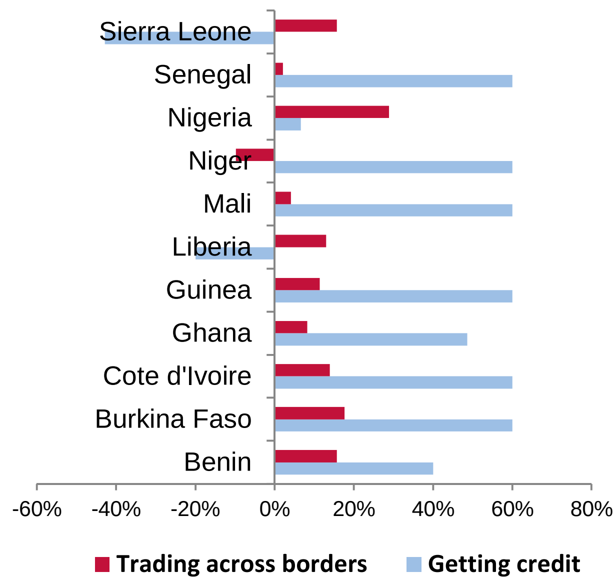
Promoting formal intra-ECOWAS trade could have numerous benefits, particularly in terms of food security and insulating against global price shocks. This was identified as a key concern after major global rice producers introduced controls on exports at the start of the global financial crisis in 2007 and 2008, which caused global rice prices to rise by as much as 300 percent. A report by the OECD on the subsequent 2008 food crisis in West Africa finds that most West African countries provide a fertile environment for rice cultivation, but high marketing and processing costs lead to low levels of rice production. As a result, the report estimates that the region relies on international imports for approximately 40 percent of its rice supply. The West Africa Trade Hub has therefore identified value chain performance, particularly for staple foods such as grains, as a key component of its approach to promoting trade and food security in the ECOWAS region. Intra-ECOWAS trade also helps to isolate the region from global economic shocks; from 2008-2009, when exports from ECOWAS countries to non-regional partners fell by 34 percent amid the global financial crisis, intra-ECOWAS exports fell by only 22 percent.

ECOWAS Progress on Trade Indicators

Doing Business

All ECOWAS countries have made positive progress in recent years in the distance to frontier for their overall scores in the World Bank's Doing Business Report. According to the World Bank, the "frontier" represents the best performance on each indicator across all economies in the Doing Business sample since 2005, and the distance measures the gap between a particular country's performance and the best performance at any point in time. Similarly, all economies with the exception of Niger made progress on the Trading Across Borders indicator, which is compiled using information on the time and costs associated with importing from and exporting to a given country. The Getting Credit indicator, an identified priority of the West Africa Trade Hub, showed the most dramatic shifts for all economies. Between 2009 and 2014, six countries shifted 60 percent closer to the frontier on this indicator. However, Liberia and Sierra Leone both moved away from the frontier, suggesting that expanding access to credit is a key area for improvement for both countries.

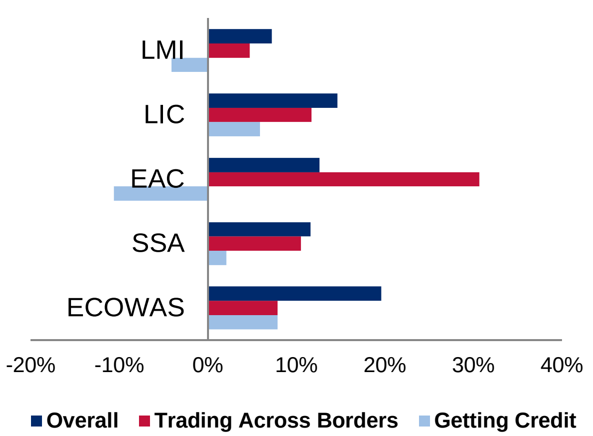
Doing Business Indicator Progress*
(% change in distance to frontier, 2009-2014)



*For ECOWAS countries that received more than $2 million in USAID funding in 2014

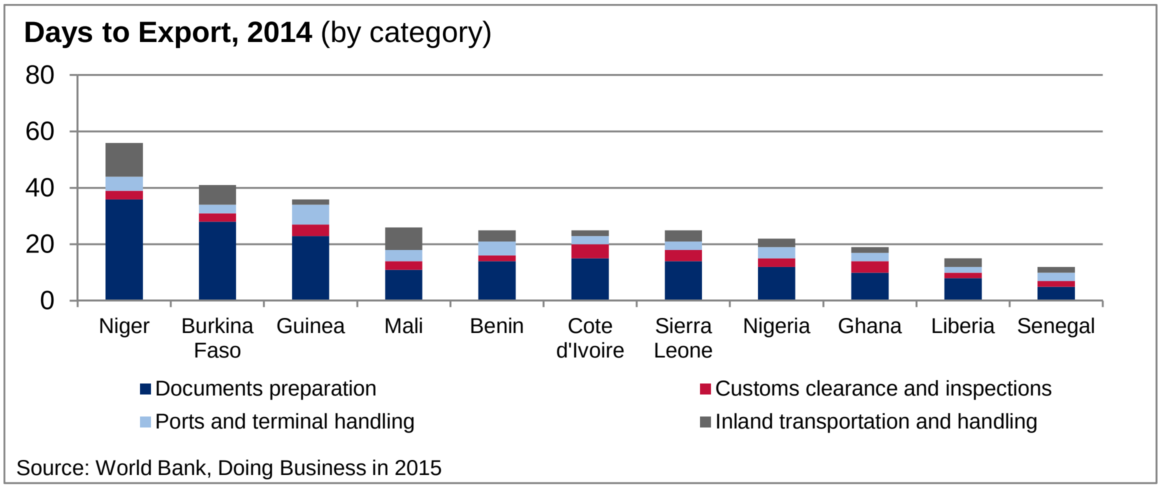
Source: World Bank, Doing Business

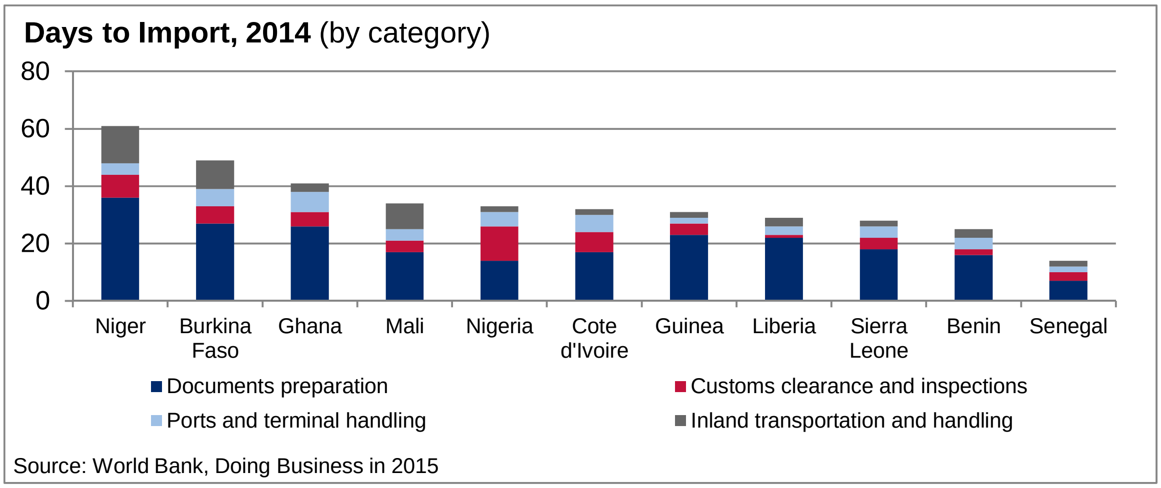
Doing Business Indicator Progress
(% change in distance to frontier, 2009-2014)



Source: World Bank, Doing Business

ECOWAS as a whole is making impressive progress across the Doing Business indicators examined in this brief. When compared to averages for lower-middle income (LMI) and low income countries (LIC), as classified by the World Bank, and the East African Community (EAC) and Sub-Saharan Africa (SSA) as a whole, ECOWAS countries have made the greatest improvement in their distance to the overall Doing Business frontier from 2009-2014, with countries averaging 20 percent closer to the frontier. Despite negative progress in Liberia and Sierra Leone, ECOWAS countries moved closer to the frontier than their peer groups on Getting Credit as well. While ECOWAS countries also made positive progress towards the frontier on Trading Across Borders in the past five years, all of its peer groups except LMI countries made greater progress.





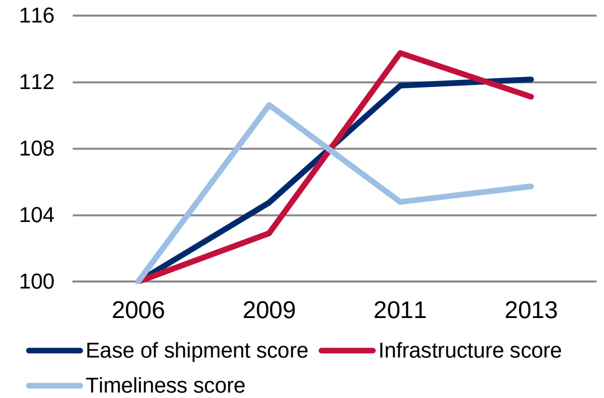
Doing Business also measures the number of days to export and import a standardized cargo of goods by sea transport as part of the Trading Across Borders indicator. For every ECOWAS country, it takes more days to import than to export, and the largest share of days for both processes goes to documents preparation. The African Development Bank identified burdensome documentation as a constraint to formal trade in West Africa, and recommends reducing these requirements to improve formal trade facilitation and reduce ICBT.

In general, less time is required for exports to clear customs and be inspected than imports. Amongst ECOWAS countries, there is wide variation in the number of days for imports customs clearance. Nigeria, for example, requires 12 days for this category, more than twice the ECOWAS regional average, whereas in Liberia the same process only takes one day. The time devoted to inland transportation for imports in landlocked ECOWAS countries—Niger, Burkina Faso, and Mali—is 4.5 times higher than for imports in ECOWAS countries that are not enclosed by land.

Logistics Performance Index

The Logistics Performance Index (LPI), also compiled by the World Bank, provides information about ECOWAS progress in transportation, another key aspect of trade competitiveness highlighted by the West Africa Trade Hub. This analytical brief examines the average score of ECOWAS economies in from 2006 to 2013 on three transportation-related indicators: timeliness, infrastructure, and ease of shipment. Since 2006, ECOWAS countries have, on average, improved their score in all three areas, but differences between the scores provide insight into possible areas of improvement. By indexing the 2006 score for each indicator to 100, it is possible to compare ECOWAS progress in each indicator across time. Between 2006 and 2009, ECOWAS economies made the greatest gains in the timeliness score, but the score fell significantly in 2011 and rose only slightly in 2013, indicating that the region could make improvements in ensuring that shipments reach their destination within an expected delivery time. The infrastructure score improved significantly between 2006 and 2011, but fell slightly in 2013. This suggests that efforts by the West Africa Trade Hub and other development agents have resulted in improvements in ECOWAS infrastructure, but there is still progress to be made. Ease of shipment was the only indicator that made improvements across all four index years, demonstrating that efforts towards improving the arrangement of competitively priced shipments have been successful.

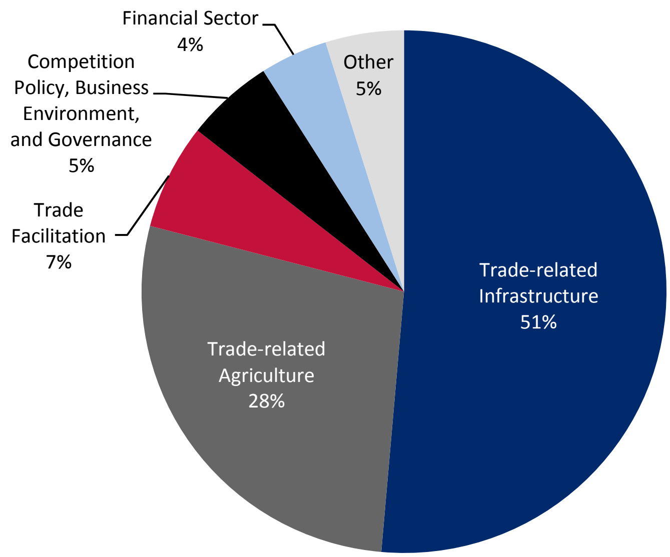
Logistics Performance Index Indicator Progress,
ECOWAS average; Index: 2006 = 100



Source: World Bank, Logistics Performance Index

U.S. Development Assistance Efforts Towards Trade in West Africa

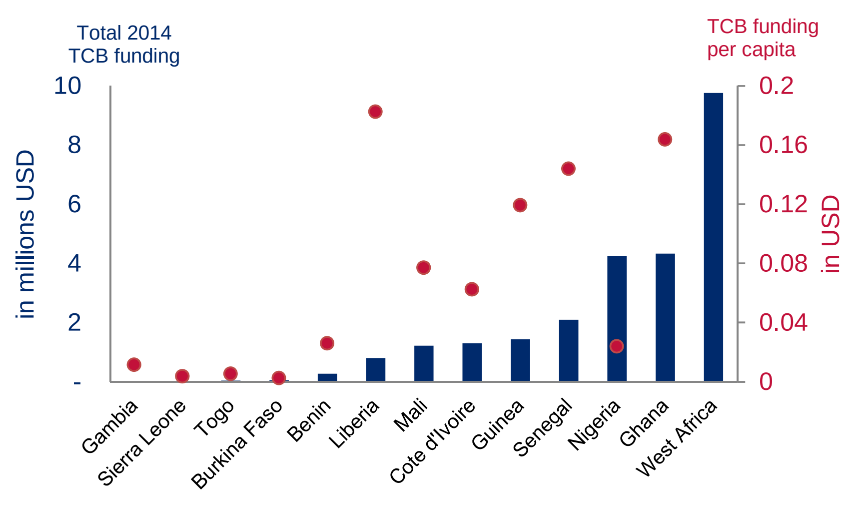
Trade Capacity Building (TCB) Funding, 2005-2014
(by Category)



Source: Trade Capacity Building Database

Historical U.S. funding for trade capacity building (TCB) generally reflects the needs identified by the Doing Business and LPI indicators as well as the West Africa Trade Hub priorities. One central component of the Trade Hub is to improve transportation in the region and to lower West Africa's transport costs, which are among the highest in the world, and poor infrastructure has been identified as a barrier to efficient transportation. In line with the identified need for infrastructure and transportation improvement, 51 percent of TCB funding went towards trade-related infrastructure between 2005 and 2014. Trade-related agriculture accounted for the second-largest share of TCB funding by category, reflective of the need for improved food security and value chain development in the region.

In 2014, more TCB funding went to West Africa as a region than to any individual ECOWAS country. According to the TCB Database, more than half of non-country specific regional funding in 2014 went to the West Africa Trade Hub network and partner programs. Ghana received the most country-specific TCB assistance in 2014, at $4.3 million. One of the largest TCB projects in Ghana, where both the West Africa Trade Hub and USAID/West Africa are based, is the Agricultural Development and Value Chain Enhancement (ADVANCE) project, which attempts to transform the agricultural sector in Ghana to improve competitiveness in both domestic and international markets under USAID's Feed the Future initiative. According to the Organization for Economic Cooperation and Development, the government of Ghana responded to the 2008 West African food crisis by creating public grain reserves to improve the availability of staple foods, and demand for cassava flour



Source: Trade Capacity Building Database

rose in Ghana as a substitute for rice amidst high rice prices. By continuing to focus on agricultural and value chain development, USAID can contribute to existing food security efforts both in Ghana and West Africa as a whole.

Nigeria received the second-largest amount of TCB funding in 2014, at $4.25 million, though it received a relatively low amount of funding on a per-capita basis given its large population. Other notable TCB efforts in ECOWAS countries include in Liberia, which received the most TCB funding per capita among ECOWAS countries in 2014. Niger, which is the only ECOWAS member that moved further away from the distance to the Trading Across Borders frontier in the Doing Business database from 2009 to 2014, driven in large part by its high number of days to export and import, received no TCB funding in 2014. This suggests that future TCB efforts should be focused on high-need countries that currently receive relatively small amounts of funding in order to improve the trade environment across all ECOWAS members.

Conclusion

An analysis of recent trade data for ECOWAS countries reveals important trends in West African trade. The United States is no longer a lead importer of ECOWAS products, due in large part to lower domestic demand for foreign petroleum. Its share has been replaced in part by emerging economies such as China and India, the latter of which is now the largest bilateral recipient of ECOWAS exports. While the United States still exports more than $10 billion worth of goods annually to ECOWAS countries, China's exports to the region are valued at more than three times that amount. Intra-ECOWAS trade continues to make up a relatively small share of total formal trade, but recent events such as the 2008 food crisis emphasize the importance of value chain development and intra-regional trade in improving food security in the region.

In general, ECOWAS countries have made improvements in recent years on trade-related indicators, particularly in infrastructure and ease of shipments as identified by the LPI, and in their overall distance to the Doing Business frontier. These improvements generally reflect U.S. development assistance efforts for trade capacity building in West Africa, which has focused heavily on investments in infrastructure. However, many ECOWAS countries still have burdensome documentation requirements, particularly for imports, and difficulty in getting credit is still an identified constraint to trade in West Africa. Therefore, future U.S. development assistance could also focus on areas such as access to finance and trade facilitation, particularly with regional partners, with an emphasis on countries that have not shown an improvement on these indicators.

Additional Information
For questions or more information, please contact the author, Ryan Whalen, at rwhalen@devtechsys.com. **Trade Data**: To access the IMF Direction of Trade Statistics, World Bank Logistics Performance Index, UN Comtrade, and World Bank Doing Business datasets, please visit the Economic and Social Database (ESDB) at https://eads.usaid.gov/esdb/. **Trade Capacity Building Database**: To view data on the U.S. Government's TCB funding, please visit the Trade Capacity Building Database (TCB) at https://eads.usaid.gov/tcb/. DISCLAIMER The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development (USAID) or the United States Government.